

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 DOE-11 H-01 INR-07 INT-05 L-03  
NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02  
SS-15 STR-06 TRSE-00 ACDA-12 /115 W  
-----021782 161355Z /43

R 161314Z JAN 78  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 4276  
INFO ALL EC CAPITALS

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USEEC

PARIS ALSO FOR OECD

E.O.11652: N/A  
TAGS: ENRG, EEC  
SUBJECT: COMMISSION PROPOSAL TO GIVE GREATER CONSIDERATION TO EC PETROLEUM PRODUCTION IN CALCULATING MINIMUM STOCKS OF PETROLEUM

1. SUMMARY: THE EC COMMISSION HAS PROPOSED A DIRECTIVE TO THE EC COUNCIL: (1) PERMITTING ANY MEMBER STATE TO REDUCE ITS PETROLEUM PRODUCT STORAGE OBLIGATION TO THE EXTENT THAT ITS ANNUAL CONSUMPTION OF SUCH PRODUCTS IS DERIVED FROM COMMUNITY CRUDE OIL BUT NOT TO EXCEED 40 PERCENT, AND (2) REQUIRING MEMBER STATES TO MAINTAIN THEIR SUPPLIES TO OTHER MEMBER STATES OF CRUDE OIL PRODUCED IN THE COMMUNITY AND PRODUCTS DERIVED FROM SUCH CRUDE AT THE PREVIOUS YEAR'S RATE IN THE EVENT OF SUPPLY DIFFICULTIES. THERE SEEMS LITTLE CHANCE FOR APPROVAL OF THIS DIRECTIVE IN THE NEAR FUTURE. WHILE THE U.K. HAS BEEN URGING AN INCREASE IN THE POSSIBLE

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REDUCTION OF PETROLEUM RESERVES BECAUSE OF LOCAL CRUDE OIL PRODUCTION FROM 15 TO AT LEAST 40 PERCENT FOR SOME TIME, THE MAINTENANCE OF SUPPLY PROVISION IN THE PROPOSED DIRECTIVE CAUGHT IT BY SURPRISE AND IS BEING STRONGLY OPPOSED. SEVERAL OTHER STATES WHICH WILL RECEIVE LITTLE DIRECT BENEFIT FROM THE DIRECTIVE ARE RELUCTANT TO GRANT THE U.K. THE FINANCIAL ADVANTAGE OF

REDUCED RESERVE REQUIREMENTS. THE PROPOSED DIRECTIVE ALSO RAISES TECHNICAL PROBLEMS WHICH MUST BE RESOLVED BEFORE APPROVAL IS POSSIBLE. END SUMMARY.

2. IN LATE DECEMBER, AN EC COMMISSION COMMUNICATION TO THE EC COUNCIL PROPOSED A COUNCIL DIRECTIVE MODIFYING THE 1968 AND 1972 COUNCIL DIRECTIVES IMPOSING AN OBLIGATION ON MEMBER STATES TO MAINTAIN A 90-DAY MINIMUM RESERVE OF PETROLEUM PRODUCTS. THE 1968 DIRECTIVE PERMITS A MEMBER STATE TO REDUCE UP TO 15 PERCENT MAXIMUM ITS RESERVES OF PETROLEUM PRODUCTS TO THE EXTENT THAT AVERAGE DAILY INTERNAL CONSUMPTION OF THAT STATE DURING THE PRECEDING YEAR IS DERIVED FROM CRUDE OIL PRODUCED IN THAT STATE. ACCORDING TO THE PROPOSED DIRECTIVE (COPIES POUCHED TO EUR/RPE AND EB/FSE), ANY MEMBER STATE MAY DEDUCT PETROLEUM PRODUCTS CONSUMED IN THAT STATE WHICH ARE DERIVED FROM PETROLEUM PRODUCED IN THAT OR ANY OTHER MEMBER STATE FROM ITS STORAGE OBLIGATION UP TO A MAXIMUM OF 40 PERCENT. THE PROPOSED DIRECTIVE ALSO STIPULATES THAT FROM DECEMBER 31, 1978 MEMBER STATES SHALL CALCULATE THE DEDUCTIBLE QUANTITIES OF PETROLEUM PRODUCTS DERIVED FROM COMMUNITY CRUDE OIL ON AN ANNUAL BASIS (BASED ON THE PREVIOUS YEAR'S EXPERIENCE), AND SHALL NOTIFY THE COMMISSION OF THESE QUANTITIES AND OF THE BASIS FOR CALCULATIONS BY JANUARY 31 OF EACH YEAR.

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3. THE PROPOSED DIRECTIVE ALSO ADDS A SECOND PARAGRAPH TO THE 1968 DIRECTIVE WHICH IS QUOTED IN FULL BELOW:  
QUOTE: THE MEMBER STATES SHALL, BY 31 DECEMBER 1978, TAKE ALL LEGAL REGULATORY OR ADMINISTRATIVE MEASURES NECESSARY TO ENSURE THAT, IN THE EVENT OF SUPPLY DIFFICULTIES, THEIR SUPPLIES TO OTHER MEMBER STATES OF INDIGENOUS CRUDE OIL AND PETROLEUM PRODUCTS DERIVED FROM IT, OR FROM THE INDIGENOUS CRUDE OF ANOTHER MEMBER STATE, SHALL BE MAINTAINED AT THE AVERAGE QUARTERLY LEVEL OF THE PREVIOUS YEAR. THESE SUPPLIES MAY BE ADJUSTED IN ACCORDANCE WITH DECISIONS WHICH HAVE BEEN TAKEN AT COMMUNITY LEVEL. END QUOTE.

4. IN THE INTRODUCTION TO THE COMMUNICATION, THE COMMISSION POINTS OUT THAT AN INCREASE IN THE DEDUCTION OF THE RESERVE OBLIGATION IS JUSTIFIED BECAUSE ACTUAL AND ANTICIPATED INCREASED COMMUNITY OIL PRODUCTION, PARTICULARLY FROM THE NORTH SEA, CONTRIBUTES TO THE COMMUNITY'S SECURITY OF SUPPLY. IT STATES THAT THE PROPOSAL IS BASED ON THREE PRINCIPLES: (A) THE QUANTITIES OF PETROLEUM PRODUCTS DERIVED FROM COMMUNITY CRUDE OIL CAN BE DEDUCTED FROM THE RESERVE OBLIGATION

OF THE STATE IN WHICH THESE PRODUCTS ARE CONSUMED; (B) MINIMUM RESERVES EQUIVALENT TO 54 DAYS OF CONSUMPTION ARE TO BE MAINTAINED FOR SECURITY REASONS; AND (C) THE "NORMAL SUPPLY FLOWS OF THESE CRUDES AND PRODUCTS BETWEEN MEMBER STATES SHALL BE MAINTAINED IN THE EVENT OF SUPPLY DIFFICULTIES."

5. FOR SOME TIME, THE U.K. HAS BEEN PRESSING FOR A SUBSTANTIAL INCREASE IN THE OFFSET TO THE 90-DAY PETROLEUM PRODUCT RESERVE REQUIREMENT TO REFLECT PROMISING NORTH SEA OIL PRODUCTION. THIS WOULD RESULT IN A MAJOR REDUCTION OF THE FINANCIAL BURDEN WHICH FALLS ALMOST ENTIRELY ON THE OIL COMPANIES UNDER INTERNAL BRITISH

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INFO OCT-01 EUR-12 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 DOE-11 H-01 INR-07 INT-05 L-03  
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R 161314Z JAN 78  
FM AMEMBASSY BRUSSELS  
TO SECSTATE WASHDC 4277  
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REGULATIONS. OTHER MEMBER STATES HAVE OPPOSED INCREASING THE PERMISSIBLE DEDUCTION SINCE, IN THE ABSENCE OF THEIR OWN OIL PRODUCTION CAPABILITY, THE RESULTING BENEFITS TO THE U.K. WOULD DISTORT THE COMMUNITY OIL MARKET AND FAVOR U.K. HIGH-ENERGY CONSUMING INDUSTRIES. THE COMMISSION PROPOSAL TO PERMIT ANY MEMBER STATE TO APPLY OIL PRODUCED FROM ANY OTHER STATE AGAINST ITS STORAGE OBLIGATION WAS INTENDED TO SPREAD THESE BENEFITS, BUT, ACCORDING TO A COMMISSION OFFICIAL, IT WOULD PROVIDE ONLY A FEW DAYS REDUCTION IN THE STORAGE OBLIGATION OF ONLY A FEW OTHER STATES.

6. THE ADDITION OF THE PROPOSAL TO OBLIGATE THE U.K. TO MAINTAIN ITS DELIVERIES OF CRUDE OIL TO OTHER MEMBER STATES IN THE EVENT OF SUPPLY DIFFICULTIES, WAS ALSO INTENDED BY THE COMMISSION TO GAIN COMMUNITY SUPPORT FOR THE PROPOSED DIRECTIVE. ACCORDING TO PRESS REPORTS AND A U.K. PERMREP OFFICIAL, HMG, AND PARTICULARLY LIMITED OFFICIAL USE

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ENERGY MINISTER BENN, ARE MOST UNHAPPY REGARDING THE MANNER IN WHICH THIS SECOND PROVISION WAS SPRUNG BY THE COMMISSION WITHOUT ANY PRIOR CONSULTATIONS WITH THE U.K., AS WELL AS WITH ITS SUBSTANCE WHICH FOR THE FIRST TIME PROVIDES OTHER EC MEMBER STATES GUARANTEED ACCESS TO NORTH SEA OIL. THIS PROVISION GOES CONSIDERABLY BEYOND THE GENERAL POOLING ARRANGEMENTS IN THE IEA CRISIS MANAGEMENT MEASURES AS WELL AS THE TWO REGULATIONS ON CRISIS MANAGEMENT PASSED BY THE EC COUNCIL IN DECEMBER 1976 AND DECEMBER 1977. THE U.K. PERMDEL OFFICIAL DOUBTS VERY MUCH THAT THE U.K. WILL ACCEPT THIS PROVISION UNLESS IT IS SUBSTANTIALLY MODIFIED TO BRING IT IN LINE WITH IEA AND OTHER EXISTING CRISIS-MANAGEMENT MEASURES WHICH WOULD, OF COURSE, REDUCE ITS ATTRACTIVENESS TO OTHER MEMBER STATES. HE SAID THE U.K. ALSO SEEKS A GREATER REDUCTION IN ITS STORAGE OBLIGATION (TO AT LEAST 50 PERCENT).

7. IT IS NOT ONLY U.K. OPPOSITION WHICH IS LIKELY TO PREVENT EARLY APPROVAL OF THIS NEW PROPOSAL, HOWEVER. THE EC COMMISSION OFFICIAL RESPONSIBLE FOR THIS MEASURE SAID THAT HE FELT IT WAS LIKELY THAT SOME MEMBER STATES WOULD FEEL THAT POTENTIAL BENEFITS FROM THE GUARANTEED ACCESS TO NORTH SEA CRUDE IN CASE OF SUPPLY DIFFICULTIES AND FROM A POSSIBLE SMALL REDUCTION OF PETROLEUM RESERVES IS NOT SUFFICIENT TO JUSTIFY THE DISTORTION OF THE COMMUNITY'S PETROLEUM MARKET AND THE COMPETITIVE ADVANTAGE TO BRITISH INDUSTRY WHICH WOULD RESULT FROM GIVING IT A 40 PERCENT REDUCTION IN RESERVE OBLIGATION. ITALY, IN PARTICULAR, HE NOTED, IMPORTS NO OIL FROM THE U.K. AND, THEREFORE, WOULD RECEIVE NO BENEFITS FROM THE PROPOSAL.

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8. THERE ARE ALSO TECHNICAL REASONS WHICH WILL PROBABLY PREVENT EARLY PASSAGE OF THIS PROPOSED DIRECTIVE

WITHOUT CONSIDERABLE REVISION AND AMPLIFICATION ACCORDING TO A COMMISSION OFFICIAL. THE DIFFICULTY OF IDENTIFYING PETROLEUM PRODUCTS ORIGINATING FROM COMMUNITY SOURCES WHEN IT IS MIXED WITH CRUDE FROM THIRD COUNTRIES IN REFINERIES AND STORAGE AND TRANSPORTATION FACILITIES (E.G., IN THE NETHERLANDS) AND TRANSHIPPED TO OTHER COUNTRIES WILL MAKE IT VERY HARD TO CALCULATE THAT PORTION OF A COUNTRY'S CONSUMPTION DERIVED FROM COMMUNITY CRUDE. SINCE RESERVES ARE HELD BY MANY SEPARATE COMPANIES IN THE MEMBER STATES, AND SINCE IN MOST STATES SUPPLY ARRANGEMENTS ARE LEFT TO THE OIL COMPANIES, BEFORE APPROVING THE DIRECTIVE MEMBER STATES WOULD PROBABLY WANT TO DETERMINE THE EXTENT OF THE VARIETY OF COMPREHENSIVE INTERNAL LAWS AND REGULATIONS WHICH WOULD HAVE TO BE PASSED BY EACH STATE TO IMPLEMENT THE DIRECTIVE. THE OPERATION OF THE SAME OIL COMPANIES ESTABLISHED IN DIFFERENT STATES WILL BE AFFECTED IN COMPLEX WAYS. ALL OF THESE FACTORS, THIS OFFICIAL STATED, ARGUE IN FAVOR OF SIMPLIFYING THE RESERVE REQUIREMENT BY ESTABLISHING IT ON THE BASIS OF CRUDE OIL RATHER THAN PETROLEUM PRODUCTS AND ASSURING A MORE EQUITABLE DISTRIBUTION AMONG ALL MEMBER STATES OF POSSIBLE REDUCTION OF RESERVE REQUIREMENTS ARISING FROM COMMUNITY OIL PRODUCTION; SUCH A SIMPLIFICATION, HE THOUGHT, IS UNLIKELY TO BE ACCEPTABLE TO THE U.K. AND MAYBE OTHER STATES.

9. COMMENT: WHILE THE U.K. WILL CERTAINLY OPPOSE THE PROVISION IN THE PROPOSED DIRECTIVE REGARDING ASSURED SUPPLIES, THE PROPOSAL AS WORDED, IT SEEMS TO US, WOULD ENCOURAGE THE U.K. TO DIRECT ITS EXPORTS OF CRUDE OIL AND PRODUCTS TO NON-EC MARKETS IN ORDER TO AVOID ESTABLISHING A BINDING SUPPLY RELATIONSHIP WITH OTHER MEMBER STATES IN CASE OF AN OIL CRISIS AND PERMITTING LIMITED OFFICIAL USE

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THEM TO CREDIT U.K. ORIGIN CRUDE OIL TO MEET THEIR RESERVE OBLIGATIONS. HINTON

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## Message Attributes

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